

# Bloomberg

May 24, 2017

## Most Popular Mining ETF Jolts Gold Juniors With Asset Tweaks

By Luzi Ann Javier and Aoyon Ashraf

- Fund sees record monthly outflow in April as investors exit
- Direxion pares GDXJ holding, adds Sprott ETF, Solactive

One of the most popular exchange-traded funds in commodities is causing a big headache for some investors.

The index tracked by the VanEck Vectors Junior Gold Miners ETF is set to re-balance in less than a month, after the fund grew so fast it reached the kind of stakes in mining companies usually associated with big institutional or activist investors. That's fueled bets the passive fund would curb some holdings and add mid-sized companies, spurring a sell-off in shares of small producers including Alamos Gold Inc.

"It's had a very big ripple effect on stock valuations," said John Ciampaglia, head of ETFs at Sprott Asset Management in Toronto, which oversees a competing fund, referring to the re-balancing of the index and the ETF's portfolio. "Whether you're an active fund manager or an individual investor, or an individual gold company, everyone is watching this thing very closely because some of these stocks have been taken down."

A record \$1.5 billion poured into VanEck Vectors Junior Gold Miners ETF in the first quarter, taking the fund's stake in some mining companies above 10 percent. That created a dilemma for the ETF, which is designed to be a passive investment. VanEck last month announced changes to its equity indexes, widening the criteria for inclusion in the gauge that is tracked by the ETF.

The re-balancing of MVIS Global Junior Gold Miners Index is set to take effect by June 17. Here are some of the impacts from expected changes in the portfolio of the junior gold-mining ETF, which trades under the ticker GDXJ:

1. Alamos, the biggest holding of GDXJ before the announcement on the re-balancing, has seen its market value shrink about 24 percent since then. The ETF has pared its position in the Toronto-based gold producer by about 16 million shares since late April, equal to about 5 percent of the mining company's outstanding shares, Scott Parsons, Alamos's vice president for investor relations, said in an email.



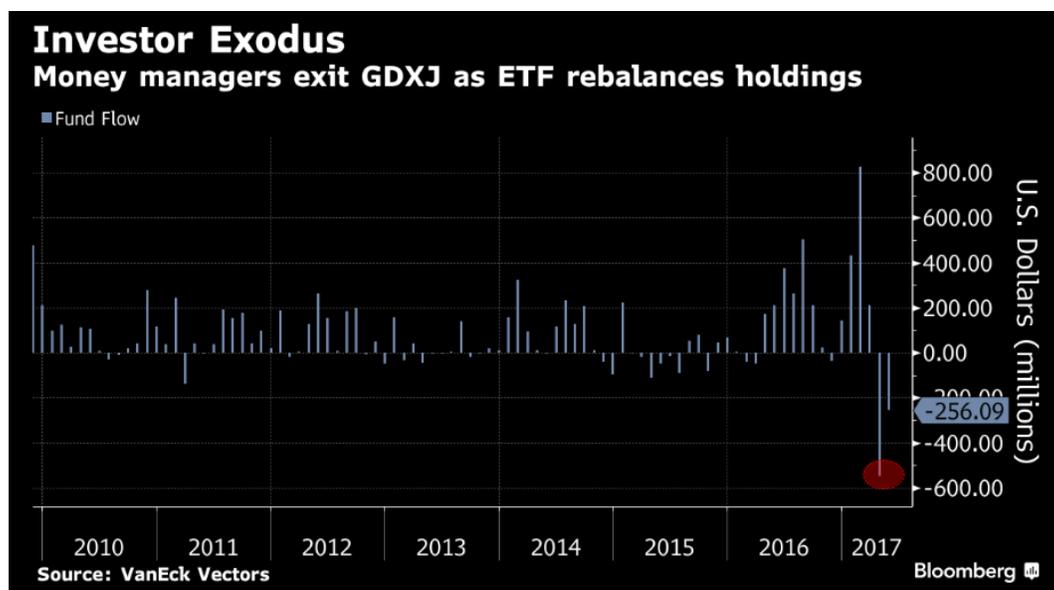
2. The MVIS Junior Gold Miners Index, run by a VanEck unit, slumped almost 15 percent since it announced the re-balancing on April 13, outpacing losses in the gauge of 72 small miners of the metal and exploration companies tracked by Bloomberg Intelligence.



Given GDJ's large positions in gold mining companies and the uncertainty in the possible changes to its portfolio, "a lot of gold equities are not trading on fundamentals for long stretches," Alamos's Parsons said. "This has been a significant source of frustration for companies such as ourselves, our shareholders, and potential investors."

VanEck declined to comment for this story, according to Chris Sullivan, a spokesman with MacMillan Communications.

3. GDJ's swelling stakes in many small miners prompted other fund managers to diversify away from the ETF. That resulted in a record monthly outflow of \$548 million from the ETF in April, followed by redemptions totaling \$256 million this month.



4. GDJ's closest competitor, Sprott Junior Gold Miners ETF, benefited as money exited from its rival. Sprott, which trades under the ticker SGDJ, saw its assets more than double since the MVIS index announced its re-balancing. Money has been moving to Sprott as investors seek greater exposure to small gold producers on expectations that GDJ will be adding mid-sized companies in its mix, Ciampaglia said. Sprott is the largest junior gold-mining ETF after GDJ.



GDXJ's rapid growth has caused some concern among investors including Direxion Daily Junior Gold Miners Index Bull 3x Shares, which targets triple the return on the MVIS index. Direxion, which trades under the ticker JNUG, cut its allocation to GDXJ and added Sprott Junior Gold Miners ETF and Solactive Custom Gold Miners Index to its holdings.

"We saw the strain on the market cap and we thought that the underlying securities just weren't really big enough to handle the volatility, the size and the growth of the fund," said Sylvia Jablonski, the head of capital markets at Direxion Investments, referring to GDXJ. "We've diversified the vehicles which we use to gain exposure to the Junior Miners Index."